Ward, George L.

Boston Board of Trade

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BOSTON BOARD OF TRADE.

REJOINDER

TO THE

REPORT OF THE COMMITTEE

ON

MR. SENATOR SUMNER'S BILL,

SUBMITTED BY

MR. GEORGE L. WARD,

MONDAY, JANUARY 22ND, 1872.

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IN introducing this subject, we refer briefly to the history of the monetary system of the country since 1830. At or about that time began the political warfare on the Bank of the United States. This bank regulated, in the most satisfactory manner, the exchange of the country, and furnished a circulating medium that was of uniform value over the entire length and breadth of the land, but was nevertheless legislated out of existence. A new banking system was introduced, called the "Pet banking system," resulting, in the main, in a most disastrous failure; thenceforward the banking system of the country consisted chiefly of individual incorporated banks. Those in the newer States were largely failures; those in the older States were, in the main, successful, meeting, however, with strong opposition by political partisans and impractical theorists, and never possessing the full confidence of the people at large. Under this state of things there was always a scarcity of money, and in consequence the country was forced into a credit system unparalleled in extent, and vicious in the extreme, culminating, in 1857, in the most disastrous money crisis that ever took place in this or any other country. At a time when the business of the country was moving along in an ordinary manner — no

undue speculating or excitement—no unusual overtrading—no violent national legislating—there came a commercial revulsion, spreading over the whole country and producing within thirty days failures of individuals, firms, banks and corporations of various kinds, amounting in the aggregate to more money, it is believed, than this country had lost by depreciated bank paper from the organization of our Government, and, we think we may add, including the old continental money.

This almost instantaneous and terribly disastrous revulsion in business was the result of the credit system into which the country had grown. The ordinary commercial credit ran from four months to eighteen months, averaging from eight to twelve months. The whole business of the country, with rare exceptions, was done on the long credit system, resulting as we have stated.

After 1857, as the country was gradually recovering from this crisis, the credits were somewhat curtailed, but the system continued till the breaking out of the rebellion, which produced many failures, and so far destroyed confidence as to early lead to what was called the "cash system,"—the emission of greenbacks and other kinds of circulating medium furnishing currency sufficient to transact the business of the country substantially for cash. Under this cash system the business of the country has gone through ten years, eventful in the most astounding changes, civil, military, commercial and financial, increasing in wealth in the meantime beyond a parallel in this or any other country, notwithstanding the excessive fluctuations in prices; and yet, during the whole period, there have been comparatively fewer failures among regular business men than in any other period of the same length in the history of this country. This we attribute almost wholly to the present monetary system. For the first time in the history of our country we have had *money enough to buy and sell for cash.*

With this brief review of the more modern financial history of the country—to the great lesson of which we shall recur further on,—we proceed to notice a few of the more general and important points made by the Committee of our Board in their recent report. At the outset the Committee assume virtually, and, by necessary implication, both in their choice of

phrase and by the whole tenor of their reasoning, that the necessity for the legal tender act of February 25, 1862, was merely a supposed or imaginary necessity, having no real foundation in fact. This is believed to be a very gross error. Introduced as it is without a particle of evidence, it can have no other effect than that of prejudicing the judgment in advance upon the question at issue. In our judgment, to assume that the country could have passed through such a vast and protracted convulsion, all the while maintaining specie payments, is to ignore all history and experience.

With only two hundred and seventy-five million dollars of specie, at most, in the whole country at the outbreak of the rebellion, one-third of that being in the South, and that at the North being also withdrawn from circulation, hoarded, hid away, sent out of the country, and in every mode possible secured and secreted against the "impending ruin," and the more rapidly as the prospects of the nation grew darker—to suppose that the enormous business of the Government incident to a great civil war added to that of the country could be carried on on a hard-money basis, appears unreasonable to the last degree. We except *in toto* to the even implied indorsement of this idea by the Board of Trade, and to it especially as serving the purpose of introduction to reasonings and conclusions most seriously in error and of very injurious practical import.

Upon some of these we will now proceed to comment:—

It is a gross mistake to refer the "high prices" and "speculative transactions" of war time to the emission of legal tender notes. These had, of course, a measure of effect. But it was so small as hardly to be worthy of specification when put into the balance against other and immeasurably more powerful agencies. Consider the circumstances of the country at the time. The nation had scarcely recovered from the great commercial revulsion of 1857. The Presidential election, attended with unusual excitements, had somewhat disturbed business and deranged industry. The rebellion then opened, and continued four years, entailing an expenditure, national, State, municipal and individual, of probably five thousand millions of dollars in the loyal States. Our whole industrial economy was disturbed. Whole departments of labor were

closed. Others were greatly modified. Two and a half millions of men were taken from the field, work-shop and the mine, and from being producers were converted into consumers. Nearly three hundred thousand able-bodied men, a large portion of whom were skilled mechanics and experienced workmen, either died of exposure and disease or were killed or disabled and were lost to industry. Our bank system was destroyed, our foreign commerce was almost entirely annihilated, a large part of our ships burned and the old channels of trade broken up. In the face of such facts as these, to intimate and argue that high prices or speculative operations resulted from the issue of paper money alone is a most extraordinary procedure. Would the Committee have us believe that even if specie payments had been maintained the products of labor would not have borne a greatly enhanced price, and that when in all sorts of business the foundations of the great deep had been broken up there would have been no speculative schemes, no wondrous devices for the sudden acquisition of wealth, no "defalcations, forgeries and breaches of trust," as specified in the report? If there be one principle in political economy that is firmly established, it is that one embodied in the famous aphorism of Adam Smith, that whenever *money affects the prices of commodities it affects all equally and alike.*

Whereas wool, for example, advanced one hundred per cent., cotton nineteen hundred per cent., while real estate remained stationary. Will it be pretended that the five-fold enhanced price of cotton in English markets was due to a depreciated currency? The facts adduced by the Committee as to the price of wheat in the several years of the war, furnish abundant material for the refutation of their doctrine as to the effect of the currency upon prices. They show that the price fell thirty-five per cent. in the foreign market in the several years of the war. Yet during the same years cotton advanced five hundred per cent. in the same market,—both facts, according to these astute financiers, being referable to one and the same cause, to wit: the depreciation of the currency! The truth is, cotton advanced in price because the war interrupted its production. Wheat fell because the production of Europe, added to the

surplus product of our own, at that time shut out of the Southern market, made an over-supply in Liverpool. The currency had nothing to do with it.

The Committee further ascribe the low price of sundry American securities in the foreign market in 1864 to our "disregard of financial laws," by which they mean, as is evident from the connection, our issue of legal tender notes. Nothing could be more preposterous. American securities were depressed because the issue of the war was uncertain, and capital, which is proverbially timid, would not plant itself where the events of the future could be no more clearly descried. But without further detail, the Committee, in their eagerness to make out a case, have held the currency responsible for effects which were in fact, and in the far greater part, the legitimate and inevitable results of the disturbance of business, and the complete revolution of industry. We deny, accordingly, the position of the report that the currency was mainly responsible for the high prices, the rage for speculation and the general "demoralization" of business virtue alluded to; and, as a necessary consequence, deny all deductions as to our present duty and the proper policy now to be followed, based upon that position. Reference is made in the report of the Committee to the resolution "pledging the House to coöperate with the Secretary of the Treasury in a contraction of the currency, with a view to the early resumption of specie payments," which passed the House of Representatives December 18, 1865, yeas, one hundred and forty-four, nays, six. This extraordinary unanimity was looked upon as betokening the assurance of most salutary results. What the results actually were, our Committee very singularly fail to inform us. The act was in force a few months, and about two hundred million dollars of currency and compound interest notes were withdrawn. In that time gold advanced from twenty-five to fifty-five per cent. The attempt to reach specie payments by the short cut resulted in total failure.

The Secretary of the Treasury was obliged to desist from further contraction, so great was the disturbance of the money market and of business, resulting from it. That experience, as well as the reason of the thing, demonstrate the only wise

course to be to allow the matter to work itself out in the natural mode; in short, to let it alone. Gold has already fallen from two dollars and eighty-five cents to one dollar and nine cents, and the less legislative interference is made the more rapid will be the process. The Committee in their report very properly make reference to the bank act of England of 1844, which provided against any increase of the paper circulation beyond a certain fixed amount, except against an equal increase of specie in the bank. But they neglect to inform us of the further facts bearing upon the question, failing which, their allusion becomes not only of no value but actually misleading. The object of this act, in the language of Sir ROBERT PEEL, its author, was "to prevent the recurrence of those convulsions which had heretofore frequently taken place," to wit: the great panics of 1826, '36, '39, etc., in which, by the confession of its advocates, it signally failed. In 1847, only three years after the passage of the act, the most disastrous monetary convulsion occurred that ever took place in the history of the empire. The minimum variation in the bank rate of interest during the year was from two and one-half to nine per cent., and in the market rate from four to twenty per cent. The bank rate changed thirteen times in the year. Speaking of the effect of the act, and of the hopes entertained in reference to it, PEEL himself said: "In these hopes I am free to confess that we have been disappointed." So utterly disastrous in its effect, and worthless in an emergency was this notable attempt to limit the currency, that the Government of England was obliged to absolve the bank from the limiting clause of its charter and permit the issue of additional paper circulation. When this permission was given there remained in the bank five hundred and four thousand, four hundred and forty-three pounds in gold; and their liabilities for gold were nineteen million, one hundred and three thousand and seventy eight pounds.

The act still remains upon the statute-book, but whenever a press comes its operation may be suspended, which shows how futile and worthless such legislation is.

Having thus very briefly noted some of the prominent incidents in the financial career of the country, and having expressed our dissent from the reasonings of the Committee, which involves

dissent from their conclusions also, we proceed to notice the act itself upon which the report of the Committee is based, and to the support of which it is addressed. What does this act contemplate, that we are called upon by the Committee to indorse, and, we will venture to say, before one merchant in ten has read it?

It may be well to examine some of its leading features: —

The first clause requires the Secretary of the Treasury to prepare compound interest notes, equal in amount to both the legal-tender notes and the fractional currency, in all over four hundred million dollars, drawing six per cent. interest, thus increasing the taxation of the country upwards of twenty-four million dollars, annually, as a preparation for the resumption of specie payments!

The second clause provides that the notes shall be of different denominations. Ten million dollars shall be ready on the first day of July, and, thenceforward, a like amount at the beginning of each month, till the whole amount is disposed of.

The third clause provides how the ten million dollars shall be forced into existence, and ten million dollars of legal-tenders forced out of existence each month, without any regard to the business or financial condition of the country.

The fourth clause provides that, in order to insure the absolute destruction of the ten million dollars of legal-tender notes monthly, the Secretary of the Treasury is instructed, *unqualifiedly*, to burn the ten million dollars.

The fifth clause provides that these compound interest notes "shall, at the option of the holder, be converted into United States five per cent. bonds," thus taking over four hundred million dollars of United States indebtedness not now drawing interest, and converting the same into bonds, at a higher rate of interest than that at which we are expecting to exchange our present bonded indebtedness. The immediate result, inevitably, would be to increase the annual interest to be paid by the country, upwards of twenty million dollars, and depreciate the value of the two billion dollars of bonded indebtedness, which we are hoping to exchange at a lower rate of interest than five per cent. In a word, we propose to pay a higher rate of interest, on a new bond, than we offer to foreigners and others on the old bonds.

Section six provides that whenever these "notes or bonds" can be sold at par, in gold, the Secretary of the Treasury may sell them, in such sums as may be called for, thus virtually annulling the limitation of ten million dollars per month, and apply the proceeds in buying legal-tender notes, which shall be cancelled. This enables the Secretary to come into the market at any and all times, and buy up the currency of the country and destroy it, really giving him the power to regulate and greatly disturb the money market at pleasure; another wise and statesman-like provision for the resumption of specie payments.

Section seven provides that the notes, issued under this act, shall not be used by the Banks as a part of the reserve required by law to be kept by them, thus carrying out what seems to be the general tenor of the bill, to not only destroy four hundred million dollars of our currency, but to prevent the compound interest notes issued in lieu thereof, so far as it is possible, from being used as currency,—in fact, the bill is radical in its provisions, and, unquestionably, would be most disastrous in its effects upon the production and business of the country.

We believe, it would postpone almost indefinitely the resumption of specie payments. It is utterly at variance with the wise policy pursued by the country since the disastrous failure of the experiment of contraction under the Act of Congress of December 18, 1865; it would derange the finances, paralyze business, lessen production, and destroy confidence at home and abroad, and, beyond a question, reïntroduce and force extensively upon the business community the old, vicious and ever to be deprecated credit system.

In their advocacy of the bill the Committee endeavor to arrive at conclusions as to the amount of the currency required by the *number of the population*. This appears to us fallacious in the extreme—a mere trifling with the matter at issue. Shall England's currency be judged excessively redundant, because her twenty millions of people use vastly more than the seventy millions of Russia? Little Rhode Island uses more money than half a dozen Western States with far greater population? Is her currency, then, enormously in excess? We can but regard this reasoning from population, on the part of the Committee, as a mere device to make weight where there is

none, and, in the dearth of truthful and legitimate argument, to sustain their position by plausible and fair-showing representations. In contravention of the views of the Committee, we insist that the only correct estimate that can be formed of the amount of circulation required at any given time, in any given country, must be based upon the *business of the country.*

The greater the business the more money will be required: the less the business the less money will be required. Subordinate considerations will, of course, need to be taken into account—as, first, whether the business is transacted chiefly for cash or, on the other hand, on credit; as, secondly, the extent of country over which the business is diffused; as, thirdly, the facilities for communication and for transporting freight.

But the paramount and controlling condition always is, that the amount of circulation is measured by the amount of business to be effected by that circulation.

One method of arriving at the amount of business transacted, is by considering the production of the country. We annex, accordingly, the following table, showing what the production of the country has been at different epochs:—

PRODUCTION.

	1810.	1850.	1860.	1870.
Manufactures......	$441,000.000	$1,019,000,000	$1,900,000,000	$4,000,000,000
Agriculture........	621,000,000	994,000,000	2,500,000,000	4,000,000,000
Total..............	$1,062,000,000	$2,013 000,000	$4,400.000,000	$8.000,000,000
Specie in Banks....	$33,000,000	$48,671,000	$84,000,000	
Specie in circulation.	50,000,000	106,000,000	167,000,000	
Bank Bills.........	107,000,000	155,000,000	207,000,000	$1,180,000,000
Deposits...........	56,000,000	128,000,000	254,000,000	
Total..............	$246,000,000	$437,671,000	$712,000,000	$1,180,000 000
Average per cent...	23 16-100	21 3-4	16 2-10	14 3-4

Manufactures......	$441,000,000	$1,019,000,000	$1,900,000,000	$4,000,000,000
Agriculture........	621,000,000	994,000,000	2,500,000,000	4,000,000,000
Total..........	$1,062,000,000	$2,013,000,000	$4.400,000,000	$8,000,000,000
Specie in circulation.	$50,000,000	$106,000,000	$167,000,000	
Bank Bills.........	107,000,000	155,000,000	207,000,000	$993,000,000
Deposits...........	56,000,000	128,000,000	254,000,000	
Amount in active circulation, including Deposits...	$213,000,000	$389,000,000	$628,000,000	$993,000,000
Average per cent. ..	20 6-100	19 1-3	14 1-4	12 4-10

Manufactures......	$441,000,000	$1,019,000,000	$1,900,000,000	$4,000,000,000
Agriculture........	621,000,000	994,000,000	2,500,000,000	4,000,000,000
Total..............	$1,062,000,000	$2,013,000.000	$4,400,000,000	$8,000,000,000
Specie in circulation.	$50,000,000	$106,000,000	$167,000,000	$475,000,000
Bank Bills......	107,000,000	155,000,000	207,000,000	
Amount in active circulation.....	$157,000,000	$261,000,000	$374.000,000	$475,000,000
Average per cent...	14 8-10	13	8 1-2	6

The figures for 1870, it may be observed in passing, are *estimated*, but are believed to be considerably below the actual fact. It appears, accordingly, that production has gone on very nearly doubling each ten years. How has it been with money? In answer to this we annex the figures following, showing, first, the whole amount of money in the country at the same epochs, including deposits; showing, secondly, the money in actual circulation and deposits; showing, thirdly, simply the money in circulation, and showing in each case the percentage which the money bore to production.

It appears, accordingly, that the amount of money taken in either one of the preceding forms is actually very much less, relatively, to the production of the country than it was in either 1840, 1850 or 1860.

Another line of demonstration leads to the same conclusion, namely, that based upon the amount of the *commercial* business of the country. This includes all that arising from both the production of the country and its importations. We assume that the articles of manufacture are in the average sold five times before consumption; that of agricultural products one-half are likewise sold five times, the other half being consumed on the ground; and that imports pass through three sales to reach the consumer. Premising this, we append the following table:—

Estimated amount of business, based on the aggregate of production and importation for 1840, 1850, 1860 *and* 1870, *assuming that manufactured articles are sold five times, one-half the agricultural product five times, and the importation three times, before consumption: and also the average per centum that the amount of money used for the transaction of the business bears to these respective sums:—*

	1840.	1850.	1860.	1870.
Manufactures	$441,000,000	$1,019,000,000	$1,900,000,000	$4,000,000,000
Half Agriculture	311,500,000	497,000,000	1,250,000,000	2,000,000,000
	752,500,000 x 5 = 3,762,500,000	1,516,000,000 x 5 = 7,580,000,000	3,150,000,000 x 5 = 15,750,000,000	6,000,000,000 x 5 = 30,000,000,000
Imports	107,000,000 x 3 = 321,000,000	178,000,000 x 3 = 534,000,000	362,000,000 x 3 = 1,086,000,000	462,000,000 x 3 = 1,386,000,000
Aggregate amount of business done	4,083,500,000	8,114,000,000	16,836,000,000	31,386,000 000
Average per cent. of money used taking specie in bank, specie in circulation, bank bills and deposits	6 per cent.	5 3-4 per cent.	4 23-100 per cent.	3 3-4 per cent.
Average per cent. of money used taking only specie in circulation, bank bills and deposits	5 22-100 per cent.	4 8-10 per cent.	3 73-100 per cent.	3 17-100 per cent.
Average per cent. taking only specie in circulation and bank bills	3 85-100 per cent.	3 22-100 per cent.	2 22-100 per cent.	1 51-100 per cent.

We would state, however, incidentally, that we assume that a foreign-finished article — say cloth, iron, steel, etc. — is sold only three times before consumption, while the same article produced in this country is sold five times, including sales during the progress of production, thus furnishing two-fifths more business than an imported article. When we come to transportation we have no doubt that the home-made article gives five times the amount of transportation for railways, etc., that the same article does when imported.

It appears again that the percentage of money, in whichever of the three specified forms taken, was less in 1870 than at either one of the three preceding dates.

In the above estimates we have left out of the account the enormous transactions of railway bonds and stock, sales of real estate, bonds and mortgages, expenses of travelling and innumerable other operations not embraced in the ordinary commercial business of the country.

CONCLUSION.

In view of the fact thus demonstrated that the money of the country is relatively to its business less than at any previous date for forty years, what shall we say to a bill that, as Mr. SUMNER'S, proposes to legislate four hundred millions of dollars out of existence! Do gentlemen expect to reach specie payment and *maintain it* by any such extraordinary and audacious practice? Specie payment will still remain utterly impracticable, even if their proposed reduction of the paper money is secured. There would still remain against the little two hundred millions of hard money in the country, as follows: two hundred and fifty millions of dollars of circulating paper, six to seven hundred millions of deposits in the banks, two billions of dollars of foreign indebtedness, virtually payable on demand, and hanging like a dark cloud over our heads. Add to this the unsettled political and industrial condition of the South, and the large party in the country favoring repudiation, and the constant drain upon the specie of the country for the payment of debts, and it appears to us that the proposition to resume specie payment is utterly impractical, visionary and chimerical.

The attempt to carry it into effect would be fraught with the most ruinous consequences. It would be utterly abortive. We therefore remonstrate with all our emphasis against the endorsement of the report of the Committee by the Board of Trade, and against the policy of violent contraction advocated by it.

The only road to resumption lies through augmented production. To cut down money, upon which production is based and realized, would be to kill the goose that lays the golden egg.

We therefore submit the following resolution, the adoption of which we ask of the Board in lieu of those propounded by the Committee :

Resolved, That the Boston Board of Trade do not approve the plan proposed by Mr. SUMNER for the abolition of a large part of our circulating medium, deeming the inevitable effect of it would be to derange business, lessen production, to violently disturb our entire monetary system, and to postpone instead of hastening the *permanent* resumption of specie payment.

NOTE.

The foregoing paper, in the form of a rejoinder or substitute, was presented by Mr. GEORGE L. WARD, at a special meeting of the Boston Board of Trade, held on the afternoon of Monday, the 22nd of January, 1872, for the purpose of debating the report of a Committee, submitted at a previous meeting, on Mr. Senator SUMNER'S Bill providing for the issue of compound-interest notes. It was ordered to be printed for the information of the members.

BOSTON, January 26th, 1872.

APPENDIX.

MR. SUMNER'S BILL

TO AUTHORIZE COMPOUND-INTEREST NOTES AS A SUBSTITUTE FOR LEGAL-TENDER NOTES.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

That the Secretary of the Treasury is hereby authorized and directed to prepare for circulation compound-interest notes equal in amount to the outstanding legal-tender notes and fractional currency of the United States, and in all respects similar to those heretofore issued under the act approved March third, eighteen hundred and sixty-three, entitled "An act to provide ways and means for the support of the Government."

SEC. 2. That these notes, of different denominations, to the amount of ten millions of dollars, shall be dated on the first day of each month, commencing with the first day of July next ensuing, when the amount named shall be ready for issue, and then afterward on the first day of each month until the requisite amount has been furnished.

SEC. 3. That the notes thus provided shall be paid out for all disbursements of the Treasury, except those due in coin, so long as they are sufficient for the purpose; and if the whole monthly instalment is not thus disposed of, it shall be the duty of the Secretary of the Treasury to exchange the surplus for the present legal-tender notes, so far as practicable, that the full sum of ten millions may be put into circulation each month.

SEC. 4. That it shall be the duty of the Secretary of the Treasury to cause the destruction each month of legal-tender notes to an extent equal to the notes issued under this act.

SEC. 5. That the notes issued under this act shall, at the option of the holder, be convertible, at the end of two years, in sums of one hundred dollars or its multiple, into bonds of the United States, not having less than ten nor more than forty years to run, and bearing interest at the rate of five per centum, and the Secretary of the Treasury is hereby authorized to issue such bonds.

SEC. 6. That whenever these notes, or the bonds into which they may be converted, can be sold at par in gold, the Secretary of the Treasury may sell them in such sums as may be called for, and apply the proceeds in gold to cancel legal-tender notes as they are paid into the Treasury.

SEC. 7. That the notes issued under this act shall constitute no part of the legal currency reserve required of the national banks.

WASHINGTON, December 4, 1871.

END OF
TITLE